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November 30, 2000

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Hand Delivery

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: EX PARTE -- CC Docket No. 00-176: Application of Verizon Pursuant to Section 271 of the Telecommunications Act of 1996 to Provide InterLATA Services in Massachusetts

Dear Ms. Salas:

On November 30, 2000, Mark Schneider, Lori Wright and I on behalf of WorldCom, Inc. met with Anna Gomez, Legal Advisor to Chairman Kennard, to discuss our pricing analysis of the loop rates in Massachusetts (based on Verizon's electronic spreadsheet that was provided in this proceeding in Verizon's November 9 ex parte), emphasize the importance of line splitting, and provide further support for our price squeeze analysis, as set forth in the attached document dated November 30, 2000 and the attached confidential document dated November 20, 2000, both of which were provided at the meeting. Confidential and redacted versions of the November 20 document are being submitted with appropriate cover letters with the understanding that the confidential material will be fully protected by the Protective Order established specifically for this docket (CC Docket No. 00-176; rel. September 22, 2000) and that the requirements for review and use of this document will be fully satisfied.

In accordance with section 1.1206 of the Commission's rules, 47 C.F.R. § 1.1206, an original and one copy of this Notice are being filed with your office.

Sincerely,

Keith L. Seat

No. of Copies rec'd 0+1
List A B C D E

Enclosures

cc (w/o encls.): Anna Gomez

cc (w/encls.): Susan Pie, Josh Walls and Cathy Carpino

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Verizon's Section 271 Application for Massachusetts Should Be Denied:

Verizon's Ongoing Price Squeeze Prevents Robust Local Exchange Telephone Competition in Massachusetts

November 30, 2000

UNE-P Is Key to Widespread Local Residential Competition

- UNE-Platform necessary for ubiquitous residential competition
  - Cable/other facilities have limited reach, limited build-out
  - Non-UNE-P expansion slow, capital requirements high
  - Resale discount better than most states, but still a loser
- Where UNE-P pricing is minimally acceptable (and other elements in place), WorldCom will enter:
  - New York entered 12/98
  - Texas entered 4/00
  - Pennsylvania entered 8/00
  - Michigan and Illinois targeted for entry in near term
- Price squeeze prevents local entry and robust competition in many states

Comparison of Massachusetts UNE-P Pricing with States WorldCom Has Entered

	MA--DTE	MA--Z-Tel	MA--10/13	NY	TX	PA
Households (000)	2,376	2,376	2,376	5,973	5,117	3,398
Zone Density	100%	100%	100%	100%	100%	100%
Revenue:						
Local	$26.65	$26.65	$26.65	$32.74	$22.97	$22.42
Access	$4.34	$4.34	$4.34	$4.13	$4.90	$5.38
Total Revenue (1)	$30.99	$30.99	$30.99	$36.87	$27.87	$27.80
Telco:						
Unbundled switch port	$4.49	$4.49	$2.00	$2.50	$2.90	$1.90
Unbundled loop	$15.66	$15.66	$15.66	$14.81	$14.15	$14.01
UNE switching & transport (2)	$21.68	$14.57	$10.50	$10.60	$4.17	$5.02
Total Telco (3)	$41.83	$34.72	$28.16	$27.91	$21.22	$20.93
Gross Margin (line/month)	($10.84)	($3.73)	$2.83	$8.96	$6.65	$6.87
Gross Margin (@75% MOU)	($6.34)	($0.71)	$4.99	$11.17	$7.53	$7.93
Gross Margin (@125% MOU)	($15.35)	($6.75)	$0.67	$6.74	$5.77	$5.80

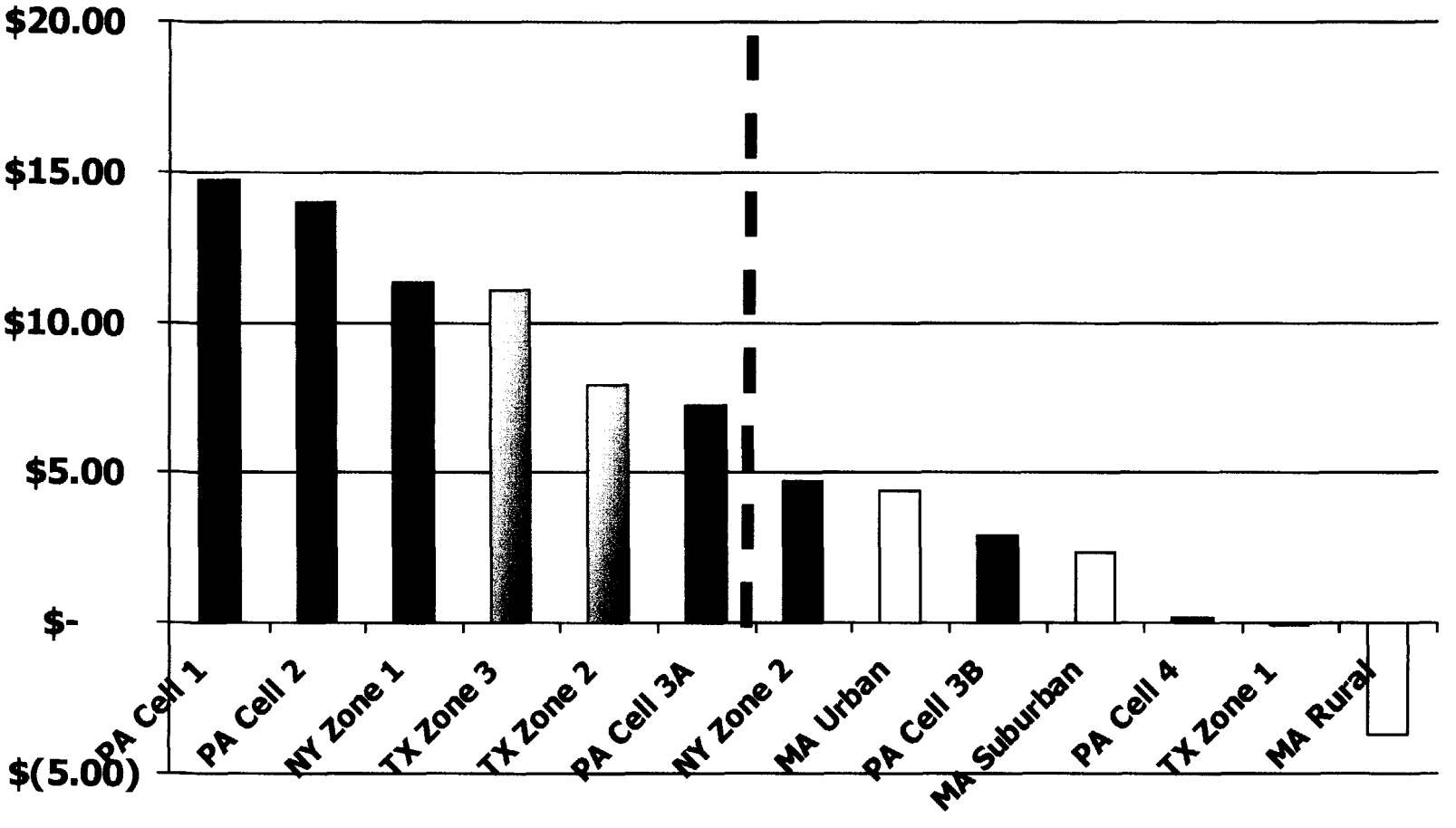
1 BOC retail rates, without discount. Includes line fee, usage, 1 feature (2 in TX), and SLC.

2 Reflects MA DTE's Sept. 7, 2000 order which reduced charges on intra-End Office calls, and slight revision in call-flow methodology.

3 Does not include Non-Recurring charges (NRCs).

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

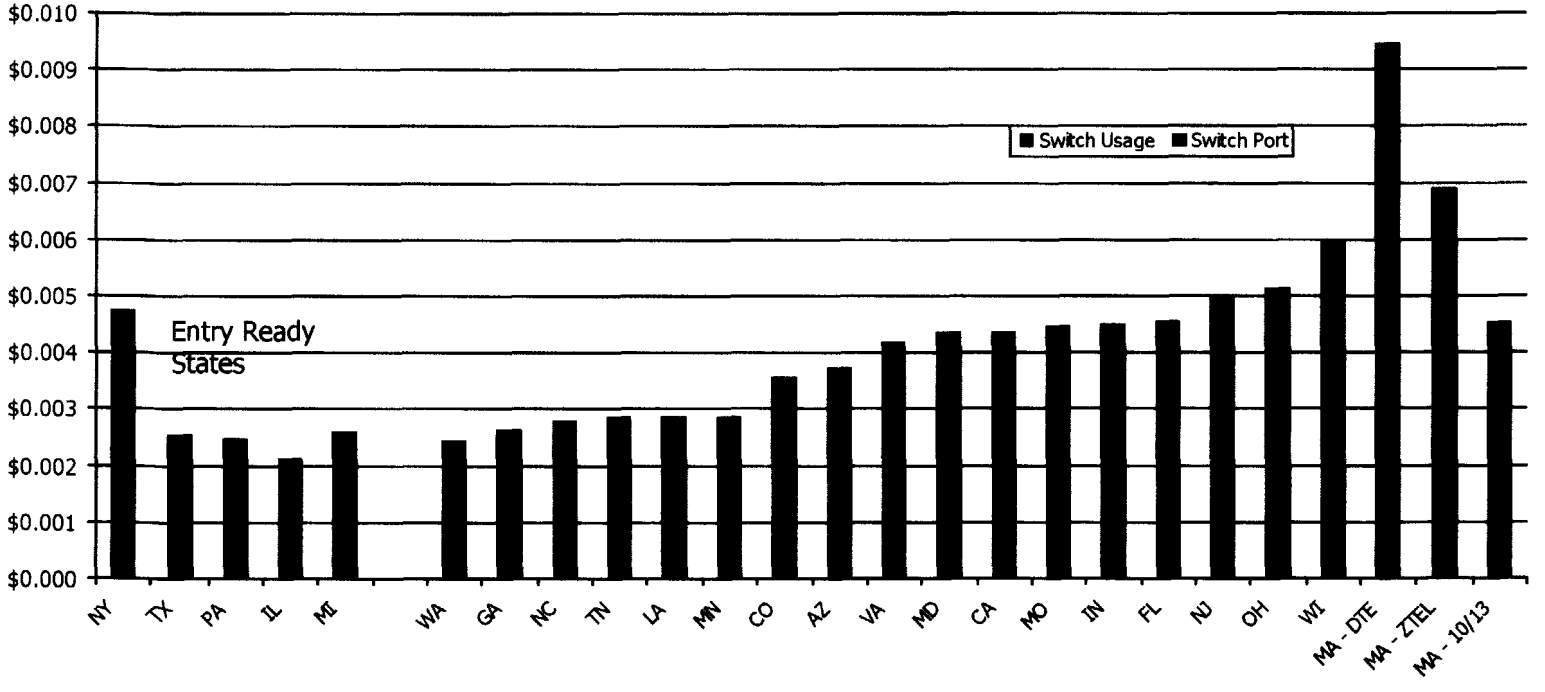
Gross Margin by Zone in Massachusetts and States WorldCom Has Entered



MA Metro zone omitted as de minimis, as it contains only 2% of households in state.

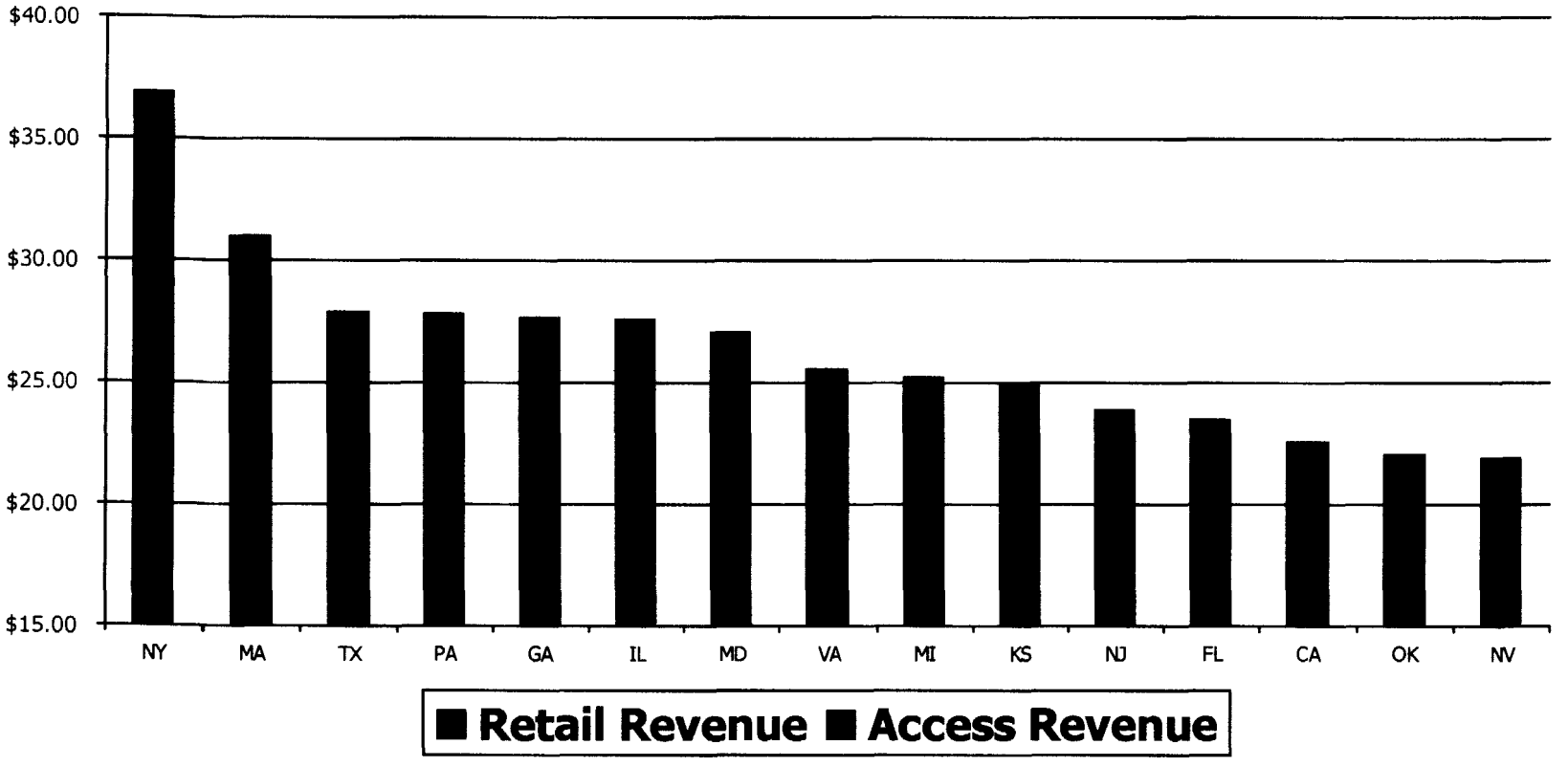
Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

UNE Costs Are Too High for Competitive Entry in Many States: Switching Rates in Largest States



- Rates per minute in BOC regions of the largest states have been calculated by dividing the estimated monthly switching, transport and port costs per line by total local and long distance minutes (originating & terminating).
- The port charge in IL includes unlimited switching at no extra charge; the effective switching rate is the result of other elements, including transport.
- Reflects MA DTE's 09/07/2000 order, whereby switching applies only once on Intra-EO calls. Also reflects slight revision in call flow methodology.

Local Residential Revenue by State



- Monthly BOC residential retail rates for dominant product (to extent known) in states for which information is available.
- Includes Access Revenue from LD/LATA minutes; feature is Call Waiting for all states except TX (which is Call Waiting and Caller ID)
- FL rate is for unlimited product in the Miami area (highest in state), plus an additional $1.25 for ECS calling.

Verizon's New Rates Should Not Be Considered in Current 271 Application

- Impropriety of Verizon's gamesmanship apparent on face of Oct. 13 tariff adopting certain New York rates
  - After four years, new rates filed on business day before comments from interested parties due
  - Support for rates not provided
- Disrespect for governmental agencies and proper process must be rebuffed
- No fair opportunity for CLECs to comment on (much less use) new rates, or DOJ or FCC to fully consider
- Verizon's 271 application must be judged based on facts presented in its case as filed, despite Verizon abandoning 1996 rates

Considerations Previously Permitting Acceptance of NY Rates Are Not Present Here

- Massachusetts regulatory environment unlike NY
  - Massachusetts Commission (DTE) refuses to open up pricing docket
  - DTE defends 1996 rates as TELRIC
  - DTE claims price squeeze is irrelevant
- NY Commission acknowledges that switching rates are flawed due to Verizon misrepresentations
  - Pricing case under way to correct rates in NY
  - True-up will occur after rates corrected
- Switching rates that were found reasonable in New York where they enabled competition are not reasonable in Massachusetts where they do not

More Recent and Better Pricing Data than New York's Are Now Available

- Unreasonable to rely on flawed 1997 NY rates when more recent and better pricing data now available
  - Costs of switching have declined since MA and NY cost studies
- Recent Pennsylvania proceedings adopted switching rates far below rates in NY
  - Upheld in state court appeal in October 2000
- Recent FCC switching cost estimate not available when NY decided switching costs
  - April 1997 NY estimate: average total cost $193 per line
    - Data from New York Telephone depreciation studies, covers 33 switches purchased in 1993 and 1994
  - Nov. 1999 FCC estimate: average total cost $117 per line
    - Data from depreciation studies (946 observations) and Rural Utilities Service (139 observations), covers switches purchased from 1989 - 1996
    - Found fixed and per line costs

Verizon's Loop Prices Must Be Reduced Substantially to Be Cost-Based

- Verizon finally made the electronic spreadsheet of its loop cost model available in Nov. 9 ex parte
  - Not filed with 271 application; repeated requests from FCC and WorldCom required to obtain
  - Sections of electronic document were not printed in paper copy even though used to compute costs
  - Formulas in electronic version required to analyze model by creating Workpaper Part A, which was attached to Verizon's February 14, 1997 compliance filing at the Massachusetts Commission (DTE)
- Analysis of the model reveals numerous input issues, requiring reduction of loop prices by over one-fourth to be cost-based

Specific Issues with Verizon "TELRIC" Loop Cost Study

- Verizon purported to conduct a "TELRIC" loop cost study, which the DTE adopted, but made numerous errors in the following areas:
  - Utilization Factors
  - Pole Inputs
  - Cost of NIDs
  - Cost of Cable
  - Cost of Capital
- Impact of correcting these areas is substantial:

	Metro	Urban	Suburban	Rural	Total
Total	-18.2%	-30.4%	-29.1%	-17.0%	-28.2%
Filed Rate	$7.54	$14.11	$16.12	$20.04	$15.66
Revised Rate	$6.17	$9.81	$11.42	$16.63	$11.24

Application Should Be Denied Because of Improper UNE Pricing

- DOJ opposed application in its Oct. 27 evaluation
  - "There are reasons to suspect that in some cases [UNE] prices have not been based on the relevant costs of the network elements"
  - "UNE rates were incorrectly calculated in the MA DTE's 1996 order"
- Massachusetts AG opposed in its comments
  - "Unrebutted record evidence indicates that Verizon's UNE switching prices are excessive, not TELRIC-based, and create a prices squeeze that is a barrier to market entry for Verizon's competitors"
- Massachusetts DTE is only participant willing to defend DTE rates as cost-based
  - DTE defense highlights problems with rates
- Verizon's section 271 application must be denied

Appendices

Massachusetts (10/13/00) - Verizon (by zone)

	MA--STATE	METRO	URBAN	SUBURBAN	RURAL
Households (000)	2,376	48	665	1,497	166
Zone Density	100%	2%	28%	63%	7%
Revenue:					
Local	$26.65	$26.65	$26.65	$26.65	$24.53
Access	$4.34	$4.34	$4.34	$4.34	$4.34
Total Revenue (1)	$30.99	$30.99	$30.99	$30.99	$28.87
Telco:					
Unbundled switch port	$2.00	$2.00	$2.00	$2.00	$2.00
Unbundled loop	$15.66	$7.54	$14.11	$16.12	$20.04
UNE switching & transport (3)	$10.50	$10.41	$10.50	$10.50	$10.50
Total Telco (2)	$28.16	$19.95	$26.61	$28.62	$32.54
Gross Margin	$2.83	$11.04	$4.38	$2.37	($3.67)

1 Includes line fee, usage, touch tone, 1 feature (call waiting @ $2.84) and SLC. Reflects revenue in the Boston Area (~1/3 of Verizon-MA). Outside of this area, revenue would be $2.12 lower or $24.53. Therefore, revenue in the Suburban zone, andpossibly the Urban zone, is overstated (as is the revenue in the state average).

2 Does not include $0.19 NRC.

3 Reflects MA DTE's 09/07/2000 order, whereby switching applies only once on Intra-EO calls. Also reflects slight revision in call flow methodology.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

New York - Verizon (by zone)

	State Average	Urban Zone 1	→ Rural Zone 2
Households (000)	5,973	3,846	2,128
Distribution	100%	64%	36%
Revenue:			
Local	$32.74	$32.64	$32.91
Access	$4.13	$4.13	$4.13
Total Revenue (1)	$36.87	$36.77	$37.04
Telco:			
Unbundled switch port	$2.50	$2.50	$2.50
Unbundled loop	$14.81	$12.36	$19.24
UNE switching & transport	$10.60	$10.60	$10.60
Total Telco (2)	$27.91	$25.46	$32.34
Gross Margin	$8.96	$11.31	$4.70

1 Includes line fee, usage, 1 feature (Call Waiting @ $5.19), and SLC. Reflects message rate product.

2 Does not include $3.73 NRC.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

Texas - SBC (by zone)

	State Average	Rural Zone 1	Zone 2	Urban Zone 3
Households (000)	5,117	1,061	2,398	1,657
Distribution	100%	21%	47%	32%
Revenue:				
Local	$22.97	$21.73	$22.74	$24.10
Access	$4.90	$4.90	$4.90	$4.90
Total Revenue (1)	$27.87	$26.63	$27.64	$29.00
Telco:				
Unbundled switch port	$2.90	$3.25	$2.15	$1.94
Unbundled loop	$14.15	$18.98	$13.65	$12.14
UNE switching & transport	$4.17	$4.44	$3.91	$3.85
Total Telco (2)	$21.22	$26.67	$19.71	$17.93
Gross Margin	$6.65	($0.04)	$7.93	$11.07

1 Includes line fee, usage, 2 features (Call Waiting @ $2.80, Caller ID @ $6.15), above average LD, and SLC. Reflects unlimited local product for Texas.

2 Does not include $30.29 NRC.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

Pennsylvania - Verizon (by zone)

	State Average	Urban → Cell 1	Cell 2	Cell 3 "A"	Cell 3 "B"	Rural Cell 4
Households (000)	3,398	226	618	1,364	184	1,007
Distribution	100%	7%	18%	40%	5%	30%
Revenue:						
Local	$22.42	$26.53	$26.53	$22.79	$18.44	$19.21
Access	$5.38	$5.38	$5.38	$5.38	$5.38	$5.38
Total Revenue (1)	$27.80	$31.91	$31.91	$28.17	$23.82	$24.59
Telco:						
Unbundled switch port	$1.90	$1.90	$1.90	$1.90	$1.90	$1.90
Unbundled loop (3)	$14.01	$10.25	$11.00	$14.00	$14.00	$17.50
UNE switching & transport	$5.02	$5.02	$5.02	$5.02	$5.02	$5.02
Total Telco (2)	$20.93	$17.17	$17.92	$20.92	$20.92	$24.42
Gross Margin	$6.87	$14.74	$13.99	$7.25	$2.90	$0.17

1 Includes line fee, usage, 1 feature (Call Waiting @ $3.62), and SLC. Reflects Unlimited Band 1 product.

2 Does not include $1.06 NRC.

3 The average loop rate corresponds to the tariffed rate to be effective 9/30/2000.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

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Verizon's Section 271 Application for Massachusetts Should Be Denied:

Verizon's Non-Cost-Based Loop and Switch Rates Prevent Robust Local Exchange Telephone Competition in Massachusetts

November 20, 2000

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Non-Cost-Based Loop Rates Cause Price Squeeze

Verizon's Loop Prices Must Be Reduced Substantially to Be Cost-Based

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  - Utilization Factors
  - Pole Inputs
  - Cost of NIDs
  - Cost of Cable
  - Cost of Capital
- Impact of correcting these areas is substantial:

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Filed Rate	$7.54	$14.11	$16.12	$20.04	$15.66
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Utilization Factors

- Utilization factors are applied to fiber and copper
  - Verizons fiber factor is 60%; FCC's Synthesis Model (SM) is 100%
    - Fiber cable can be "resized" by changing the electronics on the end of the fiber, so no additional fibers are needed to allow for growth or spares
  - Copper utilization factors differ by type and zone
    - For Feeder, Verizon varies from 60% to 70%; the SM uses 70% to 82.5%
    - For Distribution, Verizon uses 40% in all but Rural zone, which is 65%; the SM uses 75% in Metro and Urban, 65% in Suburban, and 55% in Rural
- Using the utilization factors adopted in FCC's SM results in a 16.5% statewide average reduction in loop costs
  - 7.4% reduction in Metro
  - 18.1% reduction in Urban
  - 18.4% reduction in Suburban
  - 0.2% reduction in Rural

Pole Inputs

- Pole costs depend on the number of poles (based on spacing and loop lengths) and the cost of each pole
  - Verizon assumes poles are much closer (120 to 150 feet apart) than the FCC's SM (150 to 250 feet)
  - Verizon's pole costs are $538-688, versus the SM's $417
- Using pole spacing and costs adopted in the FCC's SM results in a 2.9% statewide average reduction in loop costs
  - No reduction in Metro (no poles used in this zone)
  - 1.2% reduction in Urban
  - 3.9% reduction in Suburban
  - 4.7% reduction in Rural

Cost of NIDs

- Verizon's NID cost is substantially above that used in the FCC's SM
- Using the NID cost adopted in the SM results in a 1.8% statewide average reduction in loop costs
  - No reduction in Metro
  - 1.7% reduction in Urban
  - 2.0% reduction in Suburban
  - 1.8% reduction in Rural